

## Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 DODE-00 CIAE-00 PM-03 INR-07 L-02

ACDA-05 NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 EB-07 COME-00 FRB-03 NIC-01 OMB-01 /053 R

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EUR/RPE - MR. LAMB

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FM SECSTATE WASHDC

TO USMISSION NATO

C O N F I D E N T I A L STATE 072718

E.O. 11652: GDS

TAGS: ECON, EFIN, NATO

SUBJECT: ECONADS: EFFECTS OF INFLATION ON DEFENSE

-- EXPENDITURES

REF: NATO DOCUMENT ED/EC/74/82

1. WE CONCUR IN MAY 22 DATE FOR MEETING.

2. DURING PREPARATION OF US SUBMISSION TO ECONADS  
COMMITTEE OF EXPERTS ON INFLATION AND DEFENSE EXPENDITURES,  
PROBLEM HAS ARISEN WITH AGENDA FOR MEETING. PLEASE SEEK  
CLARIFICATION FROM DIRECTORATE.

3. INTENTION OF PREVIOUS MEETINGS HELD IN MAY AND SEPT  
1974 WAS TO DEVELOP AGREED METHOD FOR PRESENTING "REAL"  
DEFENSE EXPENDITURES, I.E. CURRENT OUTLAYS REDUCED BY  
APPROPRIATE FACTOR FOR INFLATION OF DEFENSE COSTS. THE  
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US EXPERT DELEGATION EXPECTS TO CONTINUE EXPLORATION OF THE

ISSUES INVOLVED AND SEEKS TO ACHIEVE AGREEMENT BOTH ON METHODOLOGY AND PRACTICALITY AMONG MOST, IF NOT ALL, GOVERNMENTS PRIOR TO CONSIDERING ADOPTION OF A SPECIFIC SYSTEM. THIS PROCESS IS LIKELY TO REQUIRE FURTHER MEETINGS AND PARALLEL CONSIDERATION IN CAPITALS BEYOND THE MEETING SCHEDULED THIS SPRING.

4. IN CONTRAST, THE NOTE BY THE CHAIRMAN (REFDOC) SEEKS TO GAIN APPROVAL FOR A SPECIFIC METHOD PROPOSED BY THE DIRECTORATE WHICH WAS APPARENTLY DEVELOPED AS AN ADJUNCT TO DIRECTORATE WORK ON BEHALF OF THE DEFENSE REVIEW COMMITTEE. THE NOTE FURTHER SUGGESTS THAT A TIMETABLE SHOULD BE ADOPTED FOR BEGINNING STANDARD REPORTING PROCEDURES.

5. OUR VIEW IS THAT ADOPTION OF ANY METHOD AT THE NEXT MEETING IS PREMATURE, AND IS LIKELY TO IMPEDE THE WORK OF THE COMMITTEE OF EXPERTS, SINCE DISCUSSION WOULD CLEARLY CENTER ON THE SPECIFIC PROPOSAL OF THE DIRECTORATE RATHER THAN THE SUBMISSIONS OF THE NATIONAL DELEGATIONS. FURTHER, NATIONAL DELEGATIONS ARE LIKELY TO ATTEND WITHOUT INSTRUCTIONS FOR COMMITTING THEIR GOVERNMENTS TO REPORTING PROCEDURES.

6. REQUEST ECONOMIC COUNSELOR TO RELAY ABOVE TO MR. BILLY. WE WOULD APPRECIATE CONFIRMATION THAT MAY 22 MEETING WILL CONTINUE PROCESS OF DISCUSSION OF ISSUES AND METHODS. KISSINGER

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